

## **Inquiry into Australia and the Indian Ocean Rim Countries: A Submission**

### **Preamble**

Australia has a lot to gain through market-based opportunities such as trade including mineral exports and tourism and non-market based opportunities such as contribution to capacity building and sharing the knowledge of better governance by interacting with the Indian Ocean Rim-Association for Regional Cooperation (IOR-ARC) countries.

With the landmark economic reforms in IOR-ARC countries, several issues concerning trade and investment have emerged within the region and internationally. The purpose in investigating an Indian Ocean Rim-Association for Regional Cooperation (IOR-ARC) structure can be to explore newly emerging market-based and non-market based opportunities for Australia in the region. In this context, although there are a number of sub-regional groupings involving South Asia and South Africa (and one regional grouping - IOMAC) their performances so far have not made a substantial overall impression. It is thought that Australian experience in other groupings such the CER and APEC could contribute positively to the operations of an IOR-ARC, and Australian involvement in an IOR-ARC could inform Australia's position in these other regional forums.

A common feature in many of these IOR-ARC economies is that long term economic growth depends on economic transformation along a continuum, from initial reliance largely on primary sector production for export to the establishment of modern and efficient industrial sectors. Current and future rates of growth in IOR-ARC countries arguably are closely related to their ability and willingness to make investments in productive capacity through modern technologies and infrastructure. Whilst a majority of IOR-ARC countries remained closed and inward looking, they lacked technical know-how and sufficient capital to modernise their industrial sectors. The opening up of these economies can facilitate the improvement of these economies in a number of ways. Of these, export creation and expansion and promoting direct foreign investments are the two most effective means.

### **Trade and Investment**

Trade and investment, which are crucial for regional/international cooperation, have the potential to eliminate constraints such as lack of technological progress and lack of finance to adopt new technologies. It is rational to argue that the impact of regional cooperation on the magnitude of technological innovation and investment flows in goods and services into the region can be inferred from the magnitude of export flows in goods and services generated from the region under different levels of cooperation - grand regional coalition scenario, limited cooperation scenario and stand alone scenario - because production and thereby exports of goods and services are mainly determined by technological innovation and investment.

In many countries in the grouping a major problem is about the existing 'behind the border' constraints, which put a break on seizing the opportunities created by international trade and regional cooperation. These constraints need to be understood clearly to reap the gain from potential trade across countries, which can be achieved through appropriate econometric methodologies. An ideal study involving trade and investment either in the 'stand alone' scenario or in the 'grand coalition' scenario needs to incorporate the followings:

- Review of current pattern of trade and investment in goods and services in key emerging economies of IOR-ARC, from the perspective of improving overall growth.
- Scenario analysis to determine the magnitude of the technology and investment flow into the region under a grand coalition, limited cooperation and stand alone scenarios.
- Discussion on potentials, opportunities and challenges associated with grand coalition scenario for Australia.
- Identification of feasible pathways to eliminate impediments to successful cooperation among governments and private sector operators.
- Drawing conclusions for pragmatic policy actions.

**I have worked earlier in this area and am interested to continue work in this area. Some research papers already published concerning Australia and IOR-ARC countries are:**

1. K.P. Kalirajan and R.T. Shand "Trade Patterns of the IOR-ARC: Patterns and Perspectives in the '90s" (jointly with Ric Shand), Chapter 7 in J.

Mahender Reddy (ed) *Trade and Investment: Issues in the Indian Ocean Rim*. Sterling Publishers Private Limited. New Delhi, March, pp. 232-294, 2000, ISBN 81 207 2286 8.

2. K.P. Kalirajan and R. T. Shand, "Evolving Economic Links Within the IOR-ARC", The Indian Ocean Review, 1997, (pp.1-5).
3. K.P. Kalirajan, "Indian Ocean Rim Association for Regional Cooperation (IOR-ARC): Impact on Australia's Trade", Journal of Economic Integration, 15, 2000, pp.533-547.
4. K.P. Kalirajan and R.T. Shand, "Trade Flows between Australia, India and South Africa: A Growth Triangle", Economic Papers, 1998, 17(3):89-96.
5. K.P. Kalirajan, "Trade flows between Australia and India: An empirical analysis", International Journal of Commerce and Management, 10, 2000, pp.32-49.
6. Enhancing the Trade and Investment Environment in the Indian Ocean Rim, (acknowledged as authors: R.T. Shand and K.P. Kalirajan), Canberra: Department of Foreign Affairs and Trade, 2000.

*Conference participation:*

1. 'Evolving economic links within IOR-ARC', International Conference on Indian Ocean Grouping, University of Natal, Durban, South Africa, 10-12 March 1997.
2. 'Indian Ocean Grouping: A Myth or Reality', Congress of International Economy, Aix en Provence, 13-16 June 1995.
3. 'Indian Ocean Grouping: Prospects and Problems' International Conference on Indian Ocean Rim Countries, Centre for Policy Research, New Delhi, 11-13 December, 1995.
4. 'Trade Between Australia, India and South Africa: A Growth Triangle?', International Conference on India and Australia: Economic Linkages, The Indian Ocean and APEC, 24-27 November, 1997, Centre for Policy Research, New Delhi.